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## **Eyes on the Price: Is the CPI Accurate? Ask the Federal Sleuths Who Get the Numbers --- They Have to Extract Data From Surly Clerks, Study Costs of Dissimilar Goods --- At Stake: Billions in Benefits**

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### **Abstract:**

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### **Full Text:**

TRENTON, N.J. -- The hospital's finance director is relentlessly unhelpful, but she is still no match for Sabina Bloom, government gumshoe.

Mrs. Bloom wants to know the exact prices of some hospital services. "Nothing's changed," the woman says. "Well, do you have the ledger?" Mrs. Bloom asks. "We haven't changed any prices," the woman insists. Mrs. Bloom's fast talk finally pries the woman from behind her desk, and she gets the numbers. It turns out that a semiprivate surgery recovery room now costs \$753.80 a day -- or four cents less than a month ago.

Chalk up another small success for Mrs. Bloom, one of about 300 Bureau of Labor Statistics employees who gather the information that is fed into the monthly Consumer Price Index.

The CPI is much maligned these days. Prominent economists recently declared that the index has been exaggerating inflation by 1.1 percentage points annually for several years. The stakes are high: The CPI is used to adjust what goes in and comes out of American pocketbooks, everything from Social Security benefits to income taxes. CPI fluctuations affect our understanding of whether living standards are rising or falling, and they spur the Federal Reserve to boost or cut interest rates.

The debate can be arcane, such as when it revolves around using a "Laspeyres Formula" rather than a "Fisher Ideal." But it boils down to this: Critics say the bureau doesn't fully account for times when consumers substitute, say, chicken for beef when the price of beef goes up; or when they buy socks at a discount market instead of a full-priced department store; or when they purchase a computer that is similarly priced to, but far more powerful than, a model available a few years ago. And if inflation has indeed been overestimated, the federal government has been overpaying billions of dollars in benefits, and real wages have been growing, not held stagnant as previously believed.

All of this originates with the numbers gathered by Mrs. Bloom and fellow part-timers, most of whom are women drawn by the flexible hours, and who make an average of about \$12.50 an hour.

Mrs. Bloom's travails sometimes read like a detective novel. Each month, she covers 900 miles in her beat-up Geo Prizm (three accidents in the past 18 months) to visit about 150 sites. Her mission: to record the prices of certain items, time and again. If prices change, she needs to find out why. Each month, some 90,000 prices are shipped to Washington, plugged into a computer, scrutinized, aggregated, adjusted for seasonal ups or downs and then spit out as the monthly CPI report.

Choosing what to price -- for example, the "regular" or "fancy" baby parakeet -- can seem arbitrary. After consulting surveys that track consumer-buying habits, the labor-statistics bureau selects popular stores and item categories -- say, women's tops. The price-taker then asks a store employee to help zero in on an item of the price-taker's choosing. They narrow to the size of the top, its style (short-sleeve, long-sleeve, tank or turtleneck), and so on; items that generate the most revenue in a category have the best chance of getting picked.

Shoppers know that relying on employees for anything can be chancy. At a downtown Chicago department store (the government doesn't disclose names), price-taker Mary Ann Latter squints at a sale sign above an ivory shell blouse. "Save 45%-60% when you take an additional 30% off permanently reduced merchandise. Markdown taken at register," the sign says.

Confused, Ms. Latter asks a clerk to scan the item. There is a pause. "It's 30% off," she says, just before the lunch-hour rush.

"I know," Ms. Latter says, "but can you scan it just to make sure?" Under her breath, she mumbles, "So helpful."

Downstairs in the jewelry department, Ms. Latter tries to price the one 18-inch silver necklace left, but there is no tag. "Do I have to look it up now?" moans the employee behind the counter. Ms. Latter watches her wait on several customers, then asks again: "Could you find it?" The harried saleswoman throws on the counter a thick notebook with a dizzying array of jewelry sketches. Ms. Latter finally locates a silver weave that looks about right.

When the exact item can't be found, price-takers must substitute. That can be difficult. Consider a haircut: If the stylist leaves, his fill-in must have about the same experience; a newer stylist, for example, might charge less. This frigid winter afternoon, Ms. Latter needs to substitute a coat because clothing items rarely remain on the racks for more than a couple months. It must be a lightweight swing coat of less than half wool. After digging through heavy winterwear, trying to locate tags in three departments on two floors, she gives up. It is off season anyway, so she will have to wait months to choose a substitute.

Making it harder for price detectives to grasp the true cost of living is that the master list of 207 categories they price -- called the market basket -- is updated only once every 10 years. Cellular phones? Too new to be priced because they don't fit into any of the categories set up in the 1980s. They probably will be included when the new categories arrive in 1998.

Some changes within these categories are made every five years. So within "new cars," for example, if domestic autos overtake imports in a big way, price-takers might examine more Fords and fewer Toyotas. But that doesn't happen often enough, critics say. Ms. Latter, a city-dwelling Generation X'er, continually must price "Always Twenty-One" girdles, yet ignore the new, popular WonderBras behind her. And she must plow through racks and racks of men's suits to find a single, unattractive black-and-white one to price. "It's not a very popular style," she says.

Ms. Latter's colleague in suburban Chicago, Sheila Ward, must ignore the hoopla over Tickle Me Elmo and instead price a GI Joe Extreme doll with "painted, molded hair." Reliance on outdated goods, says Mrs. Ward, "would be one of the criticisms of us." She recalls a music-store owner who became frustrated because she kept seeking prices on a guitar he could never imagine playing -- much less selling. He finally threw her out of his shop, screaming, "The damned government! Is this what I'm paying taxes for?"

Price-takers can't do much about these problems. What they can do is interrogate. At a simple restaurant, Mrs. Ward asks if food portions have changed. The owner says they haven't. But she remembers that the price of bacon has been climbing, and asks again about his BLT. Suddenly, he recalls that he has cut the number of bacon slices from

three to two. And that is a very different sandwich.

Sometimes, expert witnesses aren't so forthcoming. Many worry that a price-taker is working undercover for the Internal Revenue Service. While Mrs. Ward parks her car, the owner of a nearly empty Italian restaurant grumbles to a reporter: "I told her I'd be busy. I don't know why I'm picked for this." Rattled by the owner's impatience, Mrs. Ward accidentally addresses her by her last name and doesn't take the time to make sure she is still serving the same "center-cut strip steak, 9 oz., with garnishments: parsley." The owner seems honest, Mrs. Ward says, hastily closing the menus. "I'm just going to trust her."

Price-takers' Washington bosses get criticism because they don't always account for the fact that some items improve in quality over the years. At an appliance store, Mrs. Ward is substituting a new, longer-lasting television set for a discontinued model. That quality improvement, theoretically, would compensate for its higher price. She hammers the TV salesman to find out as much as she can about the new set: Is it cable-ready? What is the horizontal resolution? Number of audio inputs, RF inputs, video outputs? Peak power consumption?

Frazzled, the salesman regards her. "Hey, you're the one with all those figures . . ."

". . . that are wrong," Mrs. Ward finishes with a strained smile.

After her facts reach Washington, analysts struggle to determine how much a price increase reflects quality changes and how much it reflects real inflation. (If a TV set doubles in price but also is twice as good, economists say the true price hasn't risen at all.) Likely, an analyst will declare the two sets "noncomparable" and tell Mrs. Ward to wait another month to start price-comparing again -- this time with the newer set as the base. That's bogus, CPI critics say, because TVs may be improving so much that the real prices are declining -- and the bureau is missing it. But the government throws up its hands. "It's an expensive proposition" to get each manufacturer to explain how its products have improved, says Patrick Jackman, a CPI economist.

Out in New Jersey, Mrs. Bloom seems tailor-made for the job of prying information from people. She decided on this career 10 years ago, when she was handing out coupons one day in a grocery store. She spotted a woman carefully weighing fruit and jotting down numbers. Upon learning that the woman was a CPI detective, her first reaction was: "Sounds really cool." When the woman retired, Mrs. Bloom got the route, which covers parts of New Jersey, Pennsylvania and Delaware.

A taut, spry woman with short brown hair and large green eyes, Mrs. Bloom (it is always "Mrs. Bloom," so men know it is just their prices she is after) swaggers into a car dealership. A salesman in a turquoise suit leans against a red convertible. "Ooh, this what you're getting me for Christmas?" Mrs. Bloom calls out. That is a pre-emptive strike: Most car salesmen don't want to spend time with people who aren't buying.

The main price-giver is out, so she cajoles another salesman. "He skips out and leaves you with all the work, eh?" she says, and asks him to price a Plymouth. From behind his desk, he tells her: "Everything's the same." Undaunted, Mrs. Bloom pushes forward. "They always say that. But you'll look it up for me. You always do, which is nice."

As Mrs. Bloom found at the hospital, the government has a tough time gauging the actual cost of health care. With managed care, what people pay varies greatly. This year the government plans to look at individual bills to determine exactly how a hospital is reimbursed.

Still unsolved is how to capture the quality changes of health care. When Mrs. Bloom prices a day in the hospital, there is no way for her to specify that some monitoring and nursing services are better than they were 10 years ago. Even a pint of blood, which would seem easy to define, now includes more screening tests and better packaging.

Meanwhile, health professionals often don't like taking time to help. In a packed chiropractor's reception room, Mrs. Bloom glances at the harried receptionist's earrings. "Are those penguins? My kid loves penguins," Mrs. Bloom says, her husky voice prompting patients to look up. She begins waddling to show how the birds move to keep their flocks warm.

The receptionist lifts her eyes and murmurs, "It doesn't feel like a month's gone by yet." Mrs. Bloom smiles and

fairly shouts, "You know what I always say, I wouldn't come back any more than I have to." She nabs the head nurse and learns that prices for spinal manipulations (\$40), hot packs (\$20) and electro-galvanic stimulators (\$15) have stayed the same.

The clerks and nurses whom Mrs. Bloom and her colleagues interrogate aren't obligated to participate, and they get nothing in return. While they are told in advance that a price-taker is en route, the flow of business often interrupts. So if someone is working under a car when Mrs. Bloom asks him how much a tune-up costs, she will excuse his rudeness.

To critics, such methods seem outdated. Some economists recommend using data collected by price-register scanners and other outside sources. That would enable the bureau to examine new items more quickly, they say, and expand the assortment of goods and services.

But the government would still have to rely on foot soldiers like Mrs. Bloom. She has her arm-twisting tricks, particularly when trying to talk a landlord into revealing rents. She followed one around his apartment as he wore only a towel. Another landlord, in the country, refused to get off his horse. Often, after assuring them her visit doesn't mean their taxes will rise, Mrs. Bloom will say, "Baby, you want to refuse, that's okay." But few, she says, want this price investigator to mark "refuse" in her records.

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### What We Buy

Composition of Consumer Price Index market basket

Housing 41.3% Food and drinks 17.3% Transportation 17.0% Medical care 7.4% Other 7.1% Apparel and upkeep 5.5% Entertainment 4.4% Source: Bureau of Labor Statistics

Credit: Staff Reporter of The Wall Street Journal

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